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Chiang Finds More Problems in Montebello

SACRAMENTO – State Controller John Chiang today released a third audit of the City of Montebello, focusing on problems identified in the city's use of state and federal funds. Of particular note, the [audit](#) identified a large evergreen contract that effectively allows all engineering work to be awarded to a single company without any competitive bidding or independent project oversight.

"This latest audit reveals troubling management practices which invite self-dealing, the misuse of taxpayer resources, and the unlawful borrowing of restricted funds," said Chiang. "The fiscal duress now facing Montebello is, in part, self-inflicted due to years of poor fiscal oversight and inattention to basic principles of public accountability."

The audit takes issue with a large engineering contract to a private firm, AAE, which serves as the City's engineer. The auditors noted the high risk for conflict of interest when, during the period of time reviewed, AAE contracted all city capital improvement projects to itself. Then, serving as the City's engineer, the firm was solely responsible for oversight on its own work.

AAE's awarding of all engineering services to itself also appears to violate a city ordinance, adopted in 2007, that requires all contracts over \$50,000 to be bid competitively. During the audit period, AAE received \$500,000 to serve as the city engineer, and procured another \$2 million in public works contracts from Montebello. The audit recommends that the city do the following:

- use competitive bidding for all its future capital improvement projects;
- conclude the current engineering contract and employ a competitive bid process to award a new contract; and
- establish a stronger form of oversight so that the contractor is not in the position of being able to rubber-stamp its own work.

The audit found that \$1,700 of state funds were improperly used to bus city employees to a baseball game at the Dodgers stadium. Once the state auditors brought this to the city's attention, the city has said that the misused dollars were repaid.

The audit also notes inappropriate costs charged to State funds for city administration. The city used an outdated, 18-year-old formula to charge overhead costs to the State transit fund, likely resulting in improper uses of State dollars. Cost formulas should be updated annually, and the city has acknowledged that it is working to update its cost-allocation formula to make sure transit funds are not misused.

As in past audits, the Controller also noted that transit funds may have been impaired by commingling them with the other funds and the City's general fund. While Montebello

officials contend that transit funds were never impaired, they could not provide documentation to prove that transit funds and other restricted funds were not used by the city for cash-flow purposes throughout the course of the fiscal year.

This is the third in a series of four audits the Controller will perform for the City of Montebello. Two previous audits, focusing on the city's Redevelopment Agency and its gas tax fund, can be read [here](#). The final audit will focus on the city's internal control procedures.

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